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Taiwan

Food Processing Ingredients Sector

Food Processing Sector

2005

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Report Highlights:

The total production value of Taiwan's food and beverage industry in 2004 amounted to NT$440 billion (US$14 billion), a 3.5 percent increase from the previous year. Taiwan's WTO accession in 2002 and resulting import tariff cuts provided imported goods, including food ingredients, with new market opportunities.

Includes PSD Changes: No
Includes Trade Matrix: No
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Taipei ATO [TW2]
[TW]

Taiwan Food Processing Sector 2005

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I. MARKET SUMMARY

A. Economic Situation

Taiwan has a dynamic, capitalist economy that continues to expand annually. Taiwan's foreign exchange reserves are the world's second largest, exceeded only by the PRC. In 2003, Taiwan's economy was hit hard by the outbreak of Severe Acute Respiratory Syndrome (SARS). However, the economy began turning around in the last quarter of 2003. Taiwan economy rebounded to achieve a solid growth in 2004 with a GDP growth of 5.9%, the highest since 1998. However, the cabinet-level Council for Economic Planning and Development's forecast for 2005 annual GDP growth was between 4.1% - 4.8% downwards, in response to an anticipated slowdown in the world economy in 2005.

Taiwan became a full member of the World Trade Organization (WTO) in 2002. The lowering of tariff and non-tariff trade barriers for food and agricultural products has provided improved market access for a wide range of U.S. agricultural products including fresh produce, dairy products, meat, seafood, and processed food products. Given Taiwan's relatively small agricultural sector, Taiwan's dependence on imports is expected to continue to grow. Taiwan's continued modernization, and increased adoption of American and western food tastes make the country an extremely attractive market for U.S. exporters.

	2002	2003	2004
GNP: US$ billion	288.6	295.6	316.7
GNP: US$ per person	12,884	13,139	13,995
Average Disposable Income US$ per Household	28,084	25,947	N/A
Food & Beverage Total Spend (Angle Law)	24%	24%	N/A
Average Annual Exchange Rate NT$ to 1.00 US$	34.75	33.98	31.92
Consumer Price Index	-0.20	-0.28	1.62
Unemployment Rate	5.2	5.0	4.4
Economic Growth Rate %	3.9	3.3	5.9

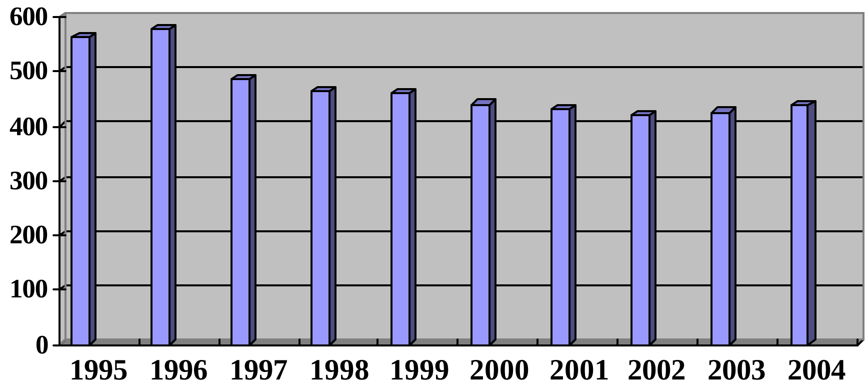
Source: Taiwan Directorate General of Budget, Accounting and Statistics.

B. Taiwan Food Processing Industry

The total production value of the domestic food and beverage industry in 2004 amounted to NT$440 billion (US$14 billion), ranking it the fourth largest among manufacturing industries island-wide, behind electronic/electrical machinery, chemicals, and metal industries. Projected annual growth for 2004 is 3.5 percent. Oriented primarily towards domestic sales, the food industry consists of more than 6,000 manufacturing enterprises employing more than 110,000 persons. Food production has declined since 1997 due to the outbreak of foot and mouth disease in 1997 and SARS in early 2003 which had a ripple effect throughout the food and agricultural sector and the overall slowdown in Taiwan. Shortly afterward the economy began turning around in response to recovery of the global economy. The food & beverage production posted a 3.5 percent growth in 2003. It continued to grow by 3.5% in 2004. Overall food exports grew approximately by 9.8%. Frozen foods and condiments accounted for 77.77% of total Taiwan's food exports in 2004. Although it is anticipated that the Taiwan economy will slow down in 2005, the Food Industry and Development Institute forecasted an annual growth rate of 3%-4% for Taiwan's food & beverage processing industry for 2005.

Taiwan Food Processing

NT$Billion



According to U.S. statistics, Taiwan imported approximately US$1,3 billion worth of US bulk agricultural commodities, $291 million worth of US intermediate food and agricultural products, $33 million worth of US edible fish & seafood products, and $489 million worth of US consumer-oriented products in 2004. Major ingredient categories that offer opportunities for U.S. exporters include snack food and bakery ingredients; gluten, starch, and dextrins, ingredients for functional and health foods; ingredients for frozen prepared foods; ingredients for high fiber food and low calorie food; soy products; and flavorings.

Although Taiwan's accession to the WTO in 2002 has benefited the domestic food processing industry from the market liberalization. However, at the same time imported finished food products have been taking increased market share from domestically produced products since the WTO accession and this trend is expected to continue. Taiwan's food processing industry is facing a vigorous competition in the more open environment. Taiwan's foreign investments in food processing have grown tremendously in recent years. To take advantage of lower costs and to expand their global markets, many of Taiwan's food processors establish production facilities outside Taiwan. According to the Ministry of Economic Affairs, as of 2004, Taiwan's food companies have invested nearly US$2 billion in the PRC and US$515 million in other countries (mainly Southeast Asia). However, the recent tendency is to relocate processing facilities to Southeast Asia.

Table: Output of Taiwan's Food & Agricultural Industry (NT$Billion)				
Sector	2003	2004	Growth Rate 2003/2004	Est. Growth Rate 2004/2005
Slaughtering	51.91	56.14	8.2%	8.5%
Dairy Products	19.88	19.18	-3.5%	3.0%
Canned Food	7.44	7.09	-4.7%	2.0%
Frozen Foods	34.09	35.57	4.3%	3.0%
Dehydrated Foods	2.60	2.34	-9.8%	-10%
Preserved Foods	5.62	6.10	8.5%	3.0%
Sugar Confectionery	5.65	5.79	2.4%	3.0%
Bakery Products	17.24	16.64	-3.52%	3.0%
Edible Oils & Fats	19.92	20.94	5.1%	8.5%
Grain Milling	26.32	29.54	12.2%	5.0%
Rice Milling	28.92	29.97	3.6%	3.0%
Sugar Production	6.43	6.05	-5.9%	-15.0%
Soy Sauce	4.89	4.18	-14.4%	2.0%
Other Seasonings	4.11	4.15	0.8%	5.0%
Wine & Liquor	12.49	11.98	-4.1%	2.0%
Malt Liquor and Malt	22.06	24.02	8.9%	3.5%
Non-alcoholic beverages	43.12	41.05	-4.8%	3.5%
Noodle Production	10.75	11.01	2.4%	3.5%
Animal Feed	49.10	51.74	5.4%	5.0%
Tea Production	1.90	1.96	3.0%	-10%
Miscellaneous Foods	50.48	54.21	7.4%	1.0%
TOTAL	424,942	439,446	3.5%	3.79%

Source: Department of Statistics, Ministry of Economic Affairs
Food Industry Research & Development Institute

2003 US$1 = NT$33.98
2004 US$1 = NT$31.92

Advantage	Challenges
Taiwan officially entered the WTO in January 2002, providing new opportunities for a wide range of U.S. agricultural products	Competition from Australia, New Zealand, Japan, China, Korea, SE Asia, and the European Union
U.S. food products enjoy a good reputation.	
Taiwanese consumers are increasingly affluent and open to Western food products	

SECTION II. ROAD MAP FOR MARKET ENTRY

A. Entry Strategy

Most imported food ingredients enter Taiwan through local importers. U.S. food ingredient suppliers should concentrate on establishing their business relationships with a reliable and efficient importer and distributor, who in turn will sell the imports to these food processors. Large food processors like Uni-President have their own purchasing/importing division to handle ingredient imports directly. U.S. suppliers should initially contact the R&D, as well as purchasing/importing divisions of these large food manufacturers, especially for new-to-market ingredients. A listing of contacts for Taiwan's major food processors is available from the ATO Taipei Office upon request. On the other hand, a visit to Taiwan is an excellent way to establish meaningful relationships with potential buyers. As many importers and food processors rely heavily upon subjective factors, U.S. suppliers are encouraged to bring product samples to Taiwan.

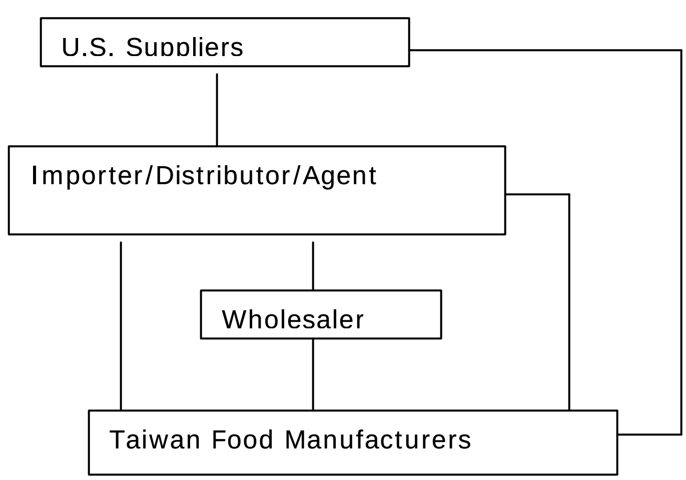
Another way to approach potential Taiwan food ingredient buyers is to participate in trade shows. Following are two major trade events that ATO Taipei recommends for U.S. food ingredient exporters:

(a) Taipei International Food Show – Annually in June
This event is organized by the Taiwan External Trade Development Council (TAITRA). It is the largest and most popular food show in Taiwan with excellent access to local food importers, manufacturers, and wholesalers. The show attracts over 55,000 visitors including traders and retailers. The show has a total of 1,500 3x3 meter booths including several international exhibitor booths.

(b) Taipei International Bakery Show – Biannually in March
This is a trade event for the bakery and food processing industries in Taiwan. Attended by over 30,000 importers and industry representatives, the show is a prime venue at which to introduce, sample, and negotiate sales of food ingredients and food service products.

B. Market Structure

Taiwan's food manufacturers purchase from local importers, distributors, and wholesalers. However, the current tendency is to increase the volume of direct imports. Taiwan's WTO accession in 2002 and resulting import tariff cuts have provided imported goods with new market opportunities.



C. Company Profiles

Major Taiwan Food Manufacturers

Company	Product Types	Sales (US$Mil) 2003	Production Location(s)	Procurement Channels
Uni-President Group	condiments, health foods, baked products, confectionery, dairy, meat, frozen prepared foods, beverages, organic foods, and pet food	1,189	Taiwan, China, SE Asia	Direct, importer, wholesaler, agent, farmers
Taiwan Sugar Corp.	Sugar, edible oil, milk, fruit juices, yeast products, health foods	938	Taiwan	Direct, importer, wholesaler, agent, farmers
Great Wall Group	Edible oil, wheat flour, chicken products, frozen foods, canned desserts, soft drinks, and animal feed	473	Taiwan, China, Hong Kong, Vietnam, Philippines, Philippines, Malaysia	Direct, importer, wholesaler, agent, farmers
Charoen Pokphand Enterprise	Processed meats and poultry meats	362	Taiwan, U.S. Mexico, Turkey, EU, Asia	Direct, importer, wholesaler, agent, farmers
Vedan Enterprise Corp.	MSG, instant noodles, beverages, honey, starch, health foods	329	Taiwan, China, Vietnam	Direct, importer, wholesaler, agent, farmers
Weichuan Food	Juices, soft drinks, condiments, dairy products	319	Taiwan, China, Thailand	Direct, importer, wholesaler, agent, farmers
TTET Union Corp.	Regular Soybean Meal, High-Protein Soybean Meal, Soybean Flakes, Soybean Oil, Canola Oil, Deep Fry Oil, Selected Soybean, Lecithin, etc.	268	Taiwan	Direct, importer, wholesaler, agent, farmers
Fwusow Industry Co. Ltd	Pet foods, animal feeds, cereal products, edible oil, vegetable protein products	162	Taiwan, China	Direct, importer, wholesaler, agent, farmers
Quaker	Milk powder, cereal products, edible oil, ginseng products	161	Taiwan, China	Direct, importer, wholesaler, agent, farmers
Tay Shan Enterprise	Edible oil, beverages, feeds	151	Taiwan, China	Direct, importer, wholesaler, agent, farmers
Lian Hua Food	Nuts, potato chips	100	Taiwan, China	Direct, importer,

	and other snack foods, jam			wholesaler, agent, farmers
Hsin Tung Yang Foods Co. Ltd	Processed meat and seafood, Taiwanese desserts	71	Taiwan	Direct, importer, wholesaler, agent, farmers
Gallant Ocean Seafood, Inc.	Processed seafood	58	Taiwan, China, S.E. Asia	Direct
Hey Song	Carbonated beverages	122	Taiwan, China	Direct, importer, wholesaler, agent, farmers
Lian Hwa Foods Corp	Processed seaweed, nuts, potato chips	100	Taiwan, China	Direct, importer, wholesaler, agent, farmers
Central Union Oil Corp	Edible oil, soybean meal and other soybean products	138	Taiwan	Direct, importer, wholesaler, agent, farmers
Laurel Enterprises Corp.	Frozen prepared foods	N/A	Taiwan, China	Direct, importer, wholesaler, agent, farmers
I-Mei Foods Co., Ltd.	Snack foods, candy, baked products, dairy, juices, HMR, non-alcoholic beverages	N/A	Taiwan, SE Asia	Direct, importer, wholesaler, agent, farmers

Source: Taiwan Commonwealth Magazine
ATO/Taipei research

D. Sector Trends

The following market trends will continue to drive the ways in which food processors are marketing their products.

(1) Taiwan's population is aging. The elderly (age 65 and above) currently make up 9.2 percent of the island's population and are increasing rapidly. According to research by Taiwan Food Industry Research and Development Institute, products with low sugar, low salt, natural, high calcium are most popular among Taiwan's elderly people.

(2) Consumers in Taiwan are becoming increasingly health and diet conscious. Low-fat and health foods are surging in popularity. Functional and organic foods are becoming popular. Local food processors are increasingly looking to promote the nutritional and health nature of their products and are seeking out natural food additives and food ingredients with health benefit for local processing.

(3) Taiwanese dine outside the home with much greater frequency than most westerners. The high propensity to dine out is driven by a combination of factors:

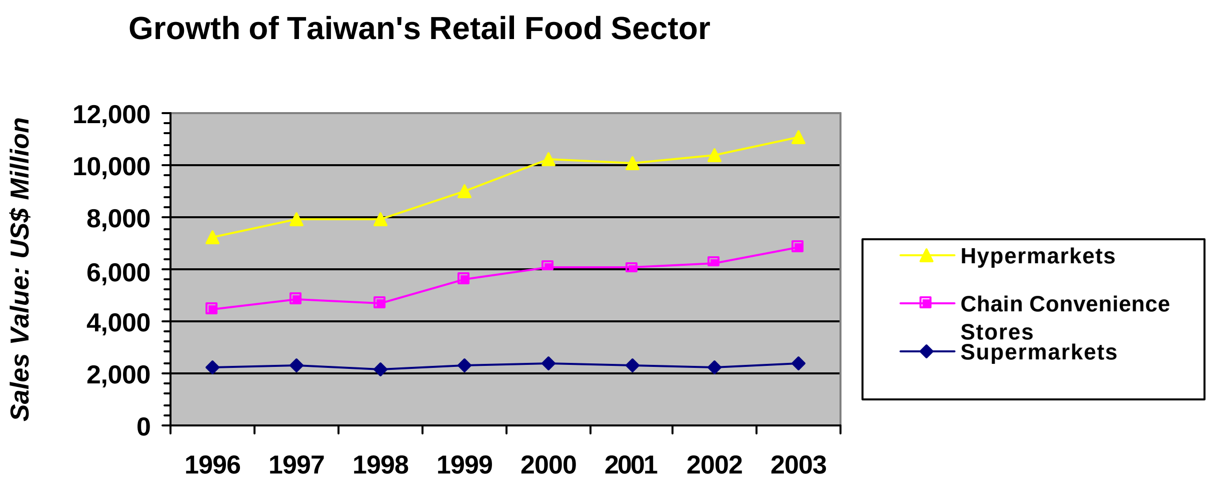
Small size of apartments
High female participation in the labor force
A high level of disposable income
Restaurant availability

Percentage Dinning Out Expenditure of Total Food & Beverage Expenditure per household

Year	1996	1997	1998	1999	2000	2001	2002	2003
	24.6%	25.8%	27.2%	28.1%	29.0%	29.6%	29.8%	31.0%

Source: Food Industry Research and Development Institute

(4) Taiwan's food retail sector is growing rapidly. According to a FIRDI report, Taiwan, next to Japan, leads all other countries around the world in terms of the number of convenience stores per capita. With a population of 23 million people, there is one convenience store for every 3,000 people in Taiwan. Also, Taiwan leads all other Asian countries, with one hypermarket store for every 229 thousand people. Currently, there is one supermarket store for every 20,000 people in Taiwan.



(5) Taiwan's consumers are becoming more sophisticated. Two income families as well as single unit households are replacing the traditional extended family. For the food industry this is creating a demand for more "Western-style" food items, as well as an emphasis on pre-cooked and convenience foods and snacks.

III. COMPETITION

In 2004, Taiwan imported nearly US$8.9 billion of food and agricultural products from many different sources, of which US$2.6 billion (30%) was imported from the United States. The United States was the number one agricultural supplier to Taiwan, followed by Australia (7%), and Japan (7%). Australia dominates the beef and mutton markets. Japan dominates the swine skin and biscuit markets and is very competitive in other consumer ready food products. New Zealand ranks as the top supplier of dairy products.

While maintaining its position as a substantial supplier of bulk commodities, such as soybeans and products (55%), corn (95%), and wheat (87%), the Untied States supplies 96% of turkey meat, 56% of fresh & frozen pork and products; 40% of vegetable & products; and 17% of fruits and products. The United States is the top supplier of most varieties of imported fresh fruits: apples (51% or US$45,575,300), table grapes (56% or US$12,965,900), grapefruits (81% and

US$3,215,200), oranges (66%, or US$3,848,000), cherries (73%, or US$32,099,400), peaches (81%, or 33,567,500), and plums (64%, or US$4,862,100). ** Figures inside parentheses represent U.S. market share of total imports.

Product Category	Total Import Value 2004 (US 1,000)	U.S Market Share	Major Supply Sources and Market Share
Total Food-Agr Imports	8,862,033	30%	Australia (7%), Japan (7%), China (6%), Malaysia (6%), Thailand (5%), Brazil (5%), New Zealand (4%), Indonesia (4%), Canada (3%)
Animal Products			
Beef ** Fresh/Frozen/Processed	221,858	1.4%	New Zealand (52%), Australia (45%)
Pork, Fresh/Frozen/Processed	53,208	56%	Canada (38%)
Turkey Meat	18,398	96%	Nil
Fish & Seafood			
Salmon	28,458	1.4%	Norway (40%), Canada (27%), Chile (17%), Japan (8%)
Lobster	40,602	30%	Australia (46%)
Fish Roe*	1,436	42%	Japan (43%), Canada (7%)
Surimi*	22,210	22%	India (40%), Thailand (31%)
Dairy Products	366,373	3%	New Zealand (37%), Australia (28%), Netherlands (8%), Denmark (6%), France (7%), Ireland (3%)
Cheese	49,032	10%	Australia (37%), New Zealand (36%)
Powder Milk	253,751	0.3%	New Zealand (37%), Australia (30%), Netherlands (10%), Denmark (8%)
Horticulture			
Fruits & Products	101,872	17%	China (24%),Thailand (11%), Iran (7%), Vietnam (7%), S. Africa (2%), Japan (2%)
Apples, Fresh	90,119	51%	Japan (17%), Chile (16%)
Table Grape, Fresh	23,144	56%	Chile (31%)
Cherries, Fresh	44,035	73%	Chili (10%), New Zealand (8%), Canada (7%)
Grapefruits, Fresh	3,964	81%	South Africa (16%)

Plum, Fresh	7,592	64%	Chile (27%)
Peaches, Fresh	41,480	81%	Chile (11%), Australia (5%)
Oranges, Fresh	5,792	66%	South Africa (19%)
Vegetable & Products	184,107	40%	Thailand (12%), China (12%). Vietnam (6%)
Potatoes, Fresh, Frozen, Processed	58,373	57%	Canada (11%), Netherlands (9%)
Celery	2,130	100%	-
Onions, fresh	6,620	81%	New Zealand (12)
Broccoli, fresh/frozen	7,908	83%	China (12%), Australia (4%)
Tree Nuts			
Almond *	11,341	95%	China (5%)
Walnut *	4,419	68%	China (16%), India (16%)
Beverage			
Apple Juice	2,248	8%	China (72%)
Grapefruit Juice	1,280	14%	Israel (44%), Japan (39%)
Grape Juice	4,839	31%	Spain (32%), Italy (22%)
Processed Foods			
Sunflower Oil	16,366	3%	Argentina (89%)
Pre Mix & Dough*	4,665	61%	Japan (21%), Australia (4%), Germany (3%)
Soups & Broths* Powder/Solid	5,482	18%	China (51%), Japan (16%), New Zealand (10%)
Canned Corn *	22,537	79%	Thailand (19%), New Zealand (2%)

Source: Council of Agriculture
* 2003 data
** Taiwan tentatively banned U.S. beef imports due to concerns about BSE.

IV. Best Product Prospects

Ingredients for frozen dough – The Taiwan bakery product market has been growing steadily at an average rate of 5-10 percent annually. To increase market share in the bakery market which is estimated at US$700 million annually, many of Taiwan's leading food manufacturers are expanding their product lines to produce frozen dough. These manufacturers previously only supply dough products to their own retail stores exclusively. However, as frozen dough has become a trend in Taiwan, these companies plan to expand their services to other traditional bakeries. They import and purchase food ingredients as raw materials for producing frozen dough. U.S. suppliers should contact these manufacturers directly.

* *Dried Fruits &Tree Nuts -* Dried fruits and nuts (mainly almonds, and walnuts) are very popular as ingredients used in baking. The US currently dominates these categories with over 80% of the market share. Constant communication with the baking industry technical seminars and trade shows is essential to grow in this category.

* *Ingredients for frozen prepared foods* – Taiwan's frozen food production covers frozen seafood, frozen meats, frozen vegetables, and frozen prepared foods. Total production was estimated at US$1.1 billion in 2004. Currently, frozen prepared foods have the best prospects for growth in this category. Main ingredients used in frozen prepared foods include surimi, wheat flour, rice, fish and seafood, frozen fruits & vegetables, meat & poultry meats, and more.

* *Fresh/Frozen Beef* – The primary competitor is Australia, whose advantage is customer-perceived comparable/acceptable quality at a low price. To optimize opportunities for US beef, suppliers need to match market needs for special meat cut types.

**Ingredients for functional and health foods* – The market for health and functional foods is estimated at US$750 million and is growing. With the increase in the standard of living and the current focus on eating healthy, natural ingredients in this category have the best prospects.

* *Pork* – Pork is a market where the domestic producers have many competitive advantages. Although most of the food processors currently use domestic Taiwanese pork for some or all of their needs, there are growth opportunities for U.S. pork that meets local food processors' needs.

* *Poultry* – The U.S. has been dominating the imported turkey meat market in Taiwan, accounting for almost 99% of total imports. Taiwan's WTO accession in 2002 and the resulting market liberalization for chicken meat has provided U.S. exporters with good opportunities in this category.

**100% Fruit Juice Concentrates* – Due to a rise in greater health consciousness, consumption patterns for soft drinks have changed dramatically in recent years with natural fruit juices and water gaining consumer acceptance. Taiwan, with a semi-tropical environment, is a major producer of many forms of fruits. Taiwan food processors use domestic fresh fruits to produce natural juices to fill some of the market demand. At the same time, they import 100% juice concentrates to produce other fruit juices and these are becoming popular in the retail market. Fruit concentrates have seen good potential for growth in Taiwan.

* *Fish and Seafood* – The major U.S. export items to Taiwan in this category included lobster, surimi (mainly pollock and cod), cod, fish roe, salmon, scallops, sea cucumber, oyster, and abalone. Taiwan imported US$307 million worth of fish and seafood in 2003. Australia was the largest supplier with a 12% market share, followed by Thailand (11%), and the United States (10%). Taiwan's lunch box market is expanding quickly. All of Taiwan's convenience stores continue to make efforts to develop and market lunch boxes and dinners. Consequently, shrimps (<10 cm in length), fish fillets, and small whole fish like sand dab particularly have good opportunities in Taiwan.

**Wheat flour/bakery pre-mixes* – Taiwan's liberalization of wheat flour imports has created opportunities for wheat flour/bakery pre-mix imports. Many Taiwan food processors are seeking wheat flour varieties to meet local demand.

**Dairy Products* – Although the import volume is large, it is dominated by New Zealand (37%) and Australia (26%). The U.S. supplies nearly 3% of the market. The cheese and curd category is growing quickly, and the U.S. share, although small, is actually growing faster than the larger competitors, meaning that those U.S. dairy products currently coming into the market are finding faster acceptance than those of competitors.

**Ingredients for Concentrated Soups* – The market for instant soups, including dehydrated soups and canned soups, is estimated at US$80 million. Due to convenience in preparation, these instant soups are becoming popular in the retail market, especially among Taiwan's working women and housewives. It is anticipated that instant concentrated soups/broths will become a trend in the food service sector in Taiwan.

Section V. Post Contact and Further Information

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